

FRANKLIN MEDICAL CENTER
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITORS' REPORT
FOR THE YEARS ENDED
APRIL 30, 2007, 2006 AND 2005

Under provisions of state law, this report is a public document. A copy of the report has been submitted to the entity and other appropriate public officials. The report is available for public inspection at the Baton Rouge office of the Legislative Auditor and, where appropriate, at the office of the parish clerk of court.

Release Date 12/19/07



LESTER, MILLER & WELLS
A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS

HOSPITAL SERVICE DISTRICT NO 1
OF THE PARISH OF FRANKLIN, STATE OF LOUISIANA
d/b/a FRANKLIN MEDICAL CENTER
HOSPITAL ENTERPRISE FUND
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

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Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis

This section of the annual financial report for Hospital Service District No. 1 of Franklin Parish, State of Louisiana d/b/a Franklin Medical Center (the "Medical Center") provides background information and management's analysis of the Medical Center's financial performance for the fiscal years that ended April 30, 2007, 2006, and 2005. Please read it in conjunction with the financial statements beginning on page 3 and notes to the financial statements beginning on page 7 in this report.

Financial Highlights

Net patient revenue for FY 2007 increased by \$2,628,200, or 18.9%, from \$13,929,569 in FY 2006 and \$13,393,603 in FY 2005 in spite of an overall decline in inpatient activity

Rural Health Clinic charges increased by \$541,669 or 21.3% to \$3,130,550 in FY 2007 from \$2,594,546 in FY 2006. FY 2006 saw a 124% increase from \$1,153,970 in FY 2005. Two new Rural Health Clinics opened during FY 2006 in St. Joseph, La and Winnsboro, La, and remained open for the entire FY 2007. Rural Health Clinic revenue increased \$364,902, or 55.4% in FY 2005 by expanding services in Newellton, La.

Long-term debt decreased by \$78,736 or 19.4% in FY 2007 to \$327,411. Long term debt decreased \$214,922 or 34.6% in FY 2006 and \$185,370 or 23.0% in FY 2005.

The net assets increased for FY 2007 by \$306,633, or 3.9% and decreased by \$1,395,381 or 15.2%, and \$263,598, or 2.8% for FY 2006 and FY 2005, respectfully

Expenses for the FY 2007 increased by \$972,824, or 6.2%, and by \$1,098,247, or 7.6%, for FY 2006. In FY 2005, expenses increased by \$454,546, or 2.9%. A discussion of significant expenses follows:

Salaries increased by \$658,148 from FY 2006 to FY 2007. Franklin Medical Center maintained its rural health clinic operations and intensive outpatient program. The Hospital also filled more administrative positions. From FY 2005 to FY 2006, salaries increased by \$733,678 due to increased rural health clinic operations and starting an intensive outpatient program. In FY 2005, salaries increased by \$244,722 due to the Hospital hired two physicians with salaries for this category approximately \$250,000.

Employee benefits including insurance provided for employees and dependents is also a significant expense. Franklin Medical Center provides health insurance for employees without cost and at a nominal cost for dependents. The costs associated with employee benefits were \$1,946,823, \$1,860,399, and \$1,800,144 for FY 2007, 2006, and 2005, respectfully.

Other expenses include minor equipment expenses which are down \$51,756, or 61.3% for FY 2007, while service fees were up by \$452,022, or 79.2% for FY 2007 and were up for FY 2006 by \$210,532, or 58.4%. Travel was up by \$39,025, or 180.8%, education increased by \$32,397, or 2000%, and dues and subscriptions increased by \$46,160, or 61.4%, all for FY 2007. Other expenses of FY 2006 include management expenses decreased by \$193,422, or 38.2%, and utilities were up by \$61,880 or 23.2%. For FY 2005, management expenses decreased by \$102,703, or 4.2%.

Depreciation and amortization expense is up by \$18,126, or 2.5% for FY 2007. This increase is due to the acquisition of equipment in the radiology department. For FY 2006, the increase was \$47,949, or 7.1%, due to the completion of a roof project and the acquisition of equipment in the radiology department. For FY 2005, the expense was up by \$111,703, or 20%, due to the acquisition of equipment in the radiology department.

**Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center**

Management's Discussion and Analysis

Using this Annual Report

The Medical Center's financial statements consist of three statements: a balance sheet, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows. These statements provide information about the Medical Center's activities including resources held the Medical Center

The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Assets

Both statements report information about Franklin Medical Center's resources and its activities that describe the financial results of the fiscal year and Franklin Medical Center's financial position as of the end of the year. They report Franklin Medical Center's net assets and changes in them.

Net assets are the difference between assets and liabilities. Over time, increases or decreases in Franklin Medical Center's net assets are one indicator of whether Franklin Medical Center's patient base, measure of the quality of services provided, and local, state, and federal economic factors should also be considered

The Statement of Cash Flows

The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, investing and capital and non-capital financing activities. It describes sources of cash, uses of cash, and the change in cash balance during the fiscal year.

Franklin Medical Center's Net Assets

Franklin Medical Center's net assets are the difference between assets and liabilities reported in the balance sheet. As discussed under the highlights section, Franklin Medical Center's net assets (inclusive of donated assets) increased by \$431,633. Also see the highlights section for a discussion of increases in total assets, current assets and liabilities (accounts payable). Capital assets and long-term debt are shown in the following table.

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis

Franklin Medical Center's Net Assets (Continued)

TABLE 1
Condensed Balance Sheet

	April 30,			
	2007	2006	2005	2004
Total current and other assets	\$ 5,194,860	\$ 4,630,025	\$ 5,325,676	\$ 6,061,446
Capital assets, net	4,043,317	4,127,827	4,601,851	4,799,083
Assets whose use is limited	591,270	725,013	1,007,069	1,030,324
Total assets	<u>\$ 9,829,447</u>	<u>\$ 9,482,865</u>	<u>\$ 10,934,596</u>	<u>\$ 11,890,853</u>
Total current liabilities	\$ 1,579,280	\$ 1,447,288	\$ 1,288,716	\$ 1,827,350
Long-term debt, net of current maturities	150,139	237,182	452,104	606,129
Total liabilities	<u>1,729,419</u>	<u>1,684,470</u>	<u>1,740,820</u>	<u>2,433,479</u>
Invested in capital assets, net of related debt	3,715,906	3,721,680	3,980,782	3,992,644
Restricted net assets	219,780	238,074	262,466	299,053
Unrestricted net assets	4,164,342	3,838,641	4,950,528	5,165,677
Total liabilities and net assets	<u>\$ 9,829,447</u>	<u>\$ 9,482,865</u>	<u>\$ 10,934,596</u>	<u>\$ 11,890,853</u>

Required Financial Statements

The Basic Financial Statements of the Hospital report information about the Hospital using Governmental Accounting Standards Board (GASB) accounting principles. These statements offer short-term and long-term financial information about its activities. The Balance Sheets include all of the Hospital's assets and liabilities and provide information about the nature and amounts of investments in resources (assets) and the obligations to Hospital creditors (liabilities). It also provides the basis for computing rate of return, evaluating the capital structure of the Hospital and assessing the liquidity and financial flexibility of the Hospital. All of the current year's revenues and expenses are accounted for in the Statement of Revenue, Expenses and Changes in Net Assets. This statement measures improvements in the Hospital's operations over the past three years and can be used to determine whether the Hospital has been able to recover all of its costs through its patient service revenue and other revenue sources. The final required financial statement is the Statement of Cash Flows. The primary purpose of this statement is to provide information about the Hospital's cash from operations, investing and financing activities, and to provide answers to such questions as where did cash come from, what was cash used for and what was the change in cash balance during the reporting period.

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis

Financial Analysis of the Hospital

The Balance Sheet and the Statement of Revenue, Expenses and Changes in Net Assets report information about the Hospital's activities. These two statements report the net assets of the Hospital and changes in them. Increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. However, other financial factors such as changes in the healthcare industry, changes in Medicare and Medicaid regulations, and changes in managed care contracting should also be considered.

Summary of Revenue, Expenses and Changes in Net Assets

TABLE 2
Condensed Statements of Revenue, Expenses and Changes in Net Assets

	Years Ended April 30,			
	2007	2006	2005	2004
Net patient service revenue	\$ 16,427,769	\$ 13,929,569	\$ 13,983,603	\$ 13,349,272
Other revenue	330,237	248,920	256,318	326,215
Total operating revenue	16,758,006	14,178,489	14,239,921	13,675,487
Salaries and employee benefits	8,815,407	8,080,656	7,558,456	7,011,187
Pension plan	88,005	78,184	83,683	79,046
Supplies and other	1,066,458	1,499,917	1,434,213	1,318,834
Professional, mgt. and consulting fees	2,547,332	2,590,404	2,167,937	2,140,480
Other expense	3,133,982	2,414,446	2,352,271	2,454,974
Insurance	249,598	246,225	262,974	227,259
Depreciation and amortization	701,331	719,457	671,508	559,805
Total operating expenses	16,602,113	15,629,289	14,531,042	13,791,585
Operating income (loss)	155,893	(1,450,800)	(291,121)	(116,098)
Nonoperating income	145,740	55,419	27,523	52,212
Revenues in excess of expenses	301,633	(1,395,381)	(263,598)	(63,886)
Net assets - beginning of year	7,798,395	9,193,776	9,457,374	9,521,260
Net assets - end of year	\$ 8,100,028	\$ 7,798,395	\$ 9,193,776	\$ 9,457,374

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis

Sources of Revenue

Operating Revenue

During fiscal year 2007, the Hospital derived the majority of its total revenue from patient service revenue. Patient service revenue includes revenue from the Medicare and Medicaid programs and patients, or their third-party payors, who receive care in the Hospital's facilities. Reimbursement for the Medicare and Medicaid programs and the third-party payors is based upon established contracts.

Table 3 presents the relative percentages of gross charges billed for patient services for Medicare and Medicaid for the fiscal years ended April 30, 2007, 2006, 2005 and 2004

TABLE 3
Medicare & Medicaid Patient Revenue

	Year ended April 30,			
	2007	2006	2005	2004
Medicare and Medicaid patient charges	\$ 17,724,066	\$ 17,956,135	\$ 18,141,029	\$ 17,563,977
Contractual adjustments	4,986,566	6,955,237	6,874,810	6,472,778
Net Medicare and Medicaid revenue	\$ 12,737,500	\$ 11,000,898	\$ 11,266,219	\$ 11,091,199
Percent of total patient gross charges	73.99%	74.93%	79.79%	79.09%
Percent of total patient revenues	77.54%	78.98%	73.57%	74.09%

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis

Operating and Financial Performance

TABLE 4
Patient Statistics

	2007	Year ended April 30,		2004
		2006	2005	
Number of patient days				
Medicare acute care	4,036	4,366	4,784	5,168
Psychiatric	666	839	1,101	1,619
Swingbed	147	396	44	255
Medicaid acute care	1,161	1,365	1,250	1,127
Other acute care	780	980	687	793
Total	6,790	7,946	7,846	8,962
Number of patient discharges				
Medicare acute care	1,012	1,050	1,172	1,226
Psychiatric	82	90	103	116
Swingbed	25	42	44	38
Medicaid acute care	410	440	437	388
Other acute care	304	346	279	290
Total	1,833	1,968	2,035	2,058
Average length of patient stay				
Medicare acute care	4.0	4.2	4.1	4.2
Psychiatric	8.1	9.3	10.7	14.0
Medicaid acute care	2.8	3.1	2.9	2.9
Other acute care	2.6	2.8	2.5	2.7
Average length of stay for acute care	3.5	3.7	3.5	3.7

Hospital Service District No. 1
Of the Parish of Franklin, State of Louisiana
Franklin Medical Center

Management's Discussion and Analysis

Capital Assets

TABLE 5
Capital Assets

	April 30			
	2007	2006	2005	2004
Land and land improvements	\$ 177,500	\$ 177,500	\$ 177,500	\$ 177,500
Buildings	4,318,514	4,318,514	4,270,385	3,934,800
Fixed equipment	2,529,238	2,529,238	2,529,238	2,494,415
Major movable equipment	7,506,730	6,948,385	6,728,730	6,440,447
Subtotal	14,531,982	13,973,637	13,705,853	13,047,162
Less accumulated depreciation and amortization	10,520,940	9,845,810	9,148,188	8,485,363
Construction-in-progress	32,275	-0-	44,186	237,284
Net property, plant and equipment	<u>\$ 4,043,317</u>	<u>\$ 4,127,827</u>	<u>\$ 4,601,851</u>	<u>\$ 4,799,083</u>

Long-Term Debt

Long-term debt consists of capital leases. During FY 2007, the Hospital made payments of \$168,966. As a result, long-term debt decreased by \$78,736 or 19.4%.

Contacting the Hospital's Financial Manager

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the Hospital's finances and to demonstrate the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Hospital administration.

**LESTER, MILLER & WELLS***A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS*

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Independent Auditors' Report

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin, State of Louisiana
Winnsboro, Louisiana

We have audited the accompanying financial statements of Hospital Service District No. 1, Parish of Franklin (the Hospital), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2007, 2006 and 2005, as listed in the foregoing table of contents. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hospital Service District No. 1, Parish of Franklin, as of April 30, 2007, 2006 and 2005, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 18, 2007, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audits were performed for the purpose of forming an opinion on the financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

Board of Commissioners

Hospital Service District No. 1
Parish of Franklin, State of Louisiana
Winnsboro, Louisiana
Page Two

Management's discussion and analysis on pages "i" through "vii" is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted primarily of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it

Lester, Miller & Wells

Certified Public Accountants
October 18, 2007



FRANKLIN MEDICAL CENTER
BALANCE SHEETS
APRIL 30,

ASSETS	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current Assets			
Cash and cash equivalents (Note 3)	\$ 135,316	\$ 422,611	\$ 290,882
Short-term investments	3,141,704	2,321,583	2,547,556
Accounts receivable, net of allowances for uncollectibles (Note 4)	945,189	1,335,928	1,800,457
Estimated third-party payor settlements	597,813	167,638	458,490
Inventories	167,282	174,079	171,181
Prepaid expenses	99,589	99,018	57,110
Total Current Assets	<u>5,086,893</u>	<u>4,520,857</u>	<u>5,325,676</u>
Non-Current Assets			
Property, plant and equipment, net (Note 5 and 6)	4,043,317	4,127,827	4,601,851
Organizational costs	82,967	109,168	-0-
Notes receivable	25,000	-0-	-0-
Assets whose use is limited (Note 7)	591,270	725,013	1,007,069
Total Assets	<u>\$ 9,829,447</u>	<u>\$ 9,482,865</u>	<u>\$ 10,934,596</u>
 LIABILITIES AND NET ASSETS			
Current Liabilities			
Accounts payable	\$ 871,405	\$ 532,010	\$ 481,896
Accrued salary and payroll taxes	168,533	288,398	332,051
Accrued vacation payable (Note 8)	232,070	205,669	206,328
Estimated third-party payor settlements	130,000	252,246	99,476
Current portion of long-term debt (Note 9)	177,272	168,965	168,965
Total Current Liabilities	<u>1,579,280</u>	<u>1,447,288</u>	<u>1,288,716</u>
Long-term Liabilities			
Capital lease obligations (Note 9)	150,139	237,182	452,104
Net Assets			
Invested in capital assets, net of related debt	3,715,906	3,721,680	3,980,782
Restricted	219,780	238,074	262,466
Unrestricted	4,164,342	3,838,641	4,950,528
Total Net Assets	<u>8,100,028</u>	<u>7,798,395</u>	<u>9,193,776</u>
 Total Liabilities and Net Assets	 <u>\$ 9,829,447</u>	 <u>\$ 9,482,865</u>	 <u>\$ 10,934,596</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenues			
Net patient service revenues (Note 10)	\$ 16,427,769	\$ 13,929,569	\$ 13,983,603
Grants	112,189	54,924	14,143
Non-restricted contributions	103	3,043	(2,517)
Other operating revenues	<u>217,945</u>	<u>190,953</u>	<u>244,692</u>
 Total Revenues	 <u>16,758,006</u>	 <u>14,178,489</u>	 <u>14,239,921</u>
 Expenses			
Salaries	6,956,589	6,298,441	5,841,995
Benefits and payroll taxes	1,946,823	1,860,399	1,800,144
Supplies and drugs	1,066,458	1,499,917	1,434,213
Professional fees	2,547,332	2,590,404	2,167,937
Other expenses	3,133,982	2,414,446	2,352,271
Insurance	249,598	246,225	262,974
Depreciation and amortization	<u>701,331</u>	<u>719,457</u>	<u>671,508</u>
 Total Expenses	 <u>16,602,113</u>	 <u>15,629,289</u>	 <u>14,531,042</u>
 Operating Income (Loss)	 <u>155,893</u>	 <u>(1,450,800)</u>	 <u>(291,121)</u>
 Nonoperating Revenues (Expenses)			
Interest income	157,725	74,946	57,364
Interest expense	<u>(11,985)</u>	<u>(19,527)</u>	<u>(29,841)</u>
 Excess of Revenues over Expenses	 301,633	 (1,395,381)	 (263,598)
 Beginning Net Assets	 <u>7,798,395</u>	 <u>9,193,776</u>	 <u>9,457,374</u>
 Ending Net Assets	 \$ <u>8,100,028</u>	 \$ <u>7,798,395</u>	 \$ <u>9,193,776</u>

See accompanying notes to financial statements

FRANKLIN MEDICAL CENTER
STATEMENTS OF CASH FLOWS
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cash flows from operating activities:			
Cash received from patients and third-party payors	\$ 16,266,087	\$ 14,837,720	\$ 13,248,067
Other receipts from operations	330,237	248,920	256,318
Cash payments to employees and for employee-related cost	(8,996,876)	(8,480,384)	(7,429,446)
Cash payments for other operating expenses	<u>(6,663,734)</u>	<u>(6,487,979)</u>	<u>(6,391,732)</u>
Net cash provided (used) by operating activities	<u>935,714</u>	<u>118,277</u>	<u>(316,793)</u>
Cash flows from investing activities:			
Cash invested in certificates of deposit	(820,121)	-0-	(22,124)
Cash proceeds from certificates of deposit	133,743	377,027	-0-
Loan to physicians	(25,000)	-0-	-0-
Interest income	<u>157,725</u>	<u>74,946</u>	<u>57,364</u>
Net cash provided (used) by investing activities	<u>(553,653)</u>	<u>451,973</u>	<u>35,240</u>
Cash flows from capital and related financing activities:			
Acquisition of property, plant, and equipment	(500,390)	(223,599)	(440,834)
Principal payments on long-term debt	<u>(168,966)</u>	<u>(214,922)</u>	<u>(210,129)</u>
Net cash provided (used) by capital and related financing activities	<u>(669,356)</u>	<u>(438,521)</u>	<u>(650,963)</u>
Net increase (decrease) in cash and cash equivalents	(287,295)	131,729	(932,516)
Beginning cash and cash equivalents	<u>422,611</u>	<u>290,882</u>	<u>1,223,398</u>
Ending cash and cash equivalents	\$ <u>135,316</u>	\$ <u>422,611</u>	\$ <u>290,882</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
STATEMENTS OF CASH FLOWS (Continued)
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Supplemental disclosures of cash flow information:			
Cash paid during the period for interest	\$ <u>(11,985)</u>	\$ <u>(19,527)</u>	\$ <u>(29,841)</u>
Equipment acquired through capital lease agreements	\$ <u>90,230</u>	\$ <u>-0-</u>	\$ <u>24,759</u>
Reconciliation of income from operations to net cash provided by operating activities:			
Operating income (loss)	\$ 155,893	\$ (1,450,800)	\$ (291,121)
Adjustments to reconcile revenue in excess of expenses to net cash provided by operating activities:			
Depreciation and amortization	701,331	719,457	671,508
Provision for bad debts	1,674,351	2,026,140	1,330,590
Interest expense considered capital related	(11,985)	(19,527)	(29,841)
Changes in current assets (increase) decrease			
Accounts receivable	(1,283,612)	(1,561,611)	(1,621,905)
Estimated third-party payor settlements	(430,175)	290,852	49,374
Inventories	6,797	(2,898)	40,023
Prepaid expenses	(571)	(41,908)	41,868
Changes in current liabilities increase (decrease)			
Accounts payable and accrued expenses	339,395	50,114	(226,387)
Accrued salary and payroll taxes	(119,865)	(43,653)	155,216
Accrued vacation payable	26,401	(659)	57,477
Estimated third-party payor settlements	<u>(122,246)</u>	<u>152,770</u>	<u>(493,595)</u>
Net cash provided (used) by operating activities	\$ <u>935,714</u>	\$ <u>118,277</u>	\$ <u>(316,793)</u>

See accompanying notes to financial statements.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 1 - ORGANIZATION AND OPERATIONS

Legal Organization

Franklin Parish Hospital Service District No. 1 (the Hospital or the District) was created by an ordinance of the Franklin Parish Police Jury on November 2, 1965.

The District is a political subdivision of the Franklin Parish Police Jury whose jurors are elected officials. The Hospital's commissioners are appointed by the Franklin Parish Police Jury. As the governing authority of the Parish, for reporting purposes, the Franklin Parish Police Jury is the financial reporting entity for the Hospital. Accordingly, the Hospital was determined to be a component unit of the Franklin Parish Police Jury based on Statement No. 14 of the National Committee on Governmental Accounting. The accompanying financial statements present information only on the funds maintained by the governmental services provided by that governmental unit or the other governmental units that comprise the financial reporting entity.

The hospital facility was originally built by the Franklin Parish Police Jury which issued ad valorem tax bonds to finance its construction. The District leases the hospital facility and some equipment from the Police Jury as explained further in Note 6. All transactions related to the original bonds sold to finance the facility, the related interest expense, and tax revenues for the payment of the bonds are reflected in the financial statements of Franklin Parish Police Jury. The final bond redemption was made during April 1986, thereby eliminating the Police Jury bond indebtedness related to the District.

Nature of Business

The District provides outpatient, skilled nursing (through "swing-beds"), emergency, inpatient acute hospital services, geriatric psychiatric services, and a rural health clinic.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Enterprise Fund

Enterprise funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

Basis of Accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic measurement focus. Based on Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, as amended, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements. Such accounting and reporting procedures conform to the requirements of Louisiana Revised Statute 24:514 and to the guide set forth in the Louisiana Governmental Audit Guide, the AICPA, Audit and Accounting Guide - Health Care Organizations, published by the American Institute of Certified Public Accountants.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Cash and cash equivalents consist primarily of deposits in checking and money market accounts and certificates of deposit with original maturities of 90 days or less. Certificates of deposit with original maturities over 90 days are classified as short-term investments. Cash and cash equivalents and short-term investments are stated at cost, which approximates market value. The caption "cash and cash equivalents" does not include amounts whose use is limited or temporary cash investments.

Credit Risk

The District provides medical care primarily to Franklin Parish residents and grants credit to patients, substantially all of whom are local residents.

The Hospital's estimate of collectibility is based on evaluation of historical collections compared to gross charges and an analysis of aged accounts receivable to establish an allowance for uncollectible accounts.

Significant Concentration of Economic Dependence

The District has an economic dependence on a small number of staff physicians. These physicians admit over 90% of the Hospital's patients. The Hospital also has an economic dependence on Medicare and Medicaid as sources of payments as shown in the table in Note 10. Changes in federal or state legislation or interpretations of rules have a significant impact on the Hospital.

Net Patient Service Revenues

The District has entered into agreements with third-party payors, including government programs, health insurance companies, and managed care health plans, under which the Hospital is paid based upon established charges, the cost of providing services, predetermined rates per diagnosis, fixed per diem rates, or discounts from established charges.

Revenues are recorded at estimated amounts due from patients and third-party payors for the Hospital services provided. Settlements under reimbursement agreements with third-party payors are estimated and recorded in the period the related services are rendered and are adjusted in future periods as final settlements are determined.

Inventory

Inventories are stated at the lower of cost determined by the first-in, first-out, or market basis.

Income Taxes

The District's income is exempt from taxation.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, Plant and Equipment

Property, plant and equipment is recorded at cost for purchased assets or at fair market value on the date of any donation. The Hospital uses straight-line method of determining depreciation for financial reporting and third-party reimbursement. The following estimated useful lives are generally used.

Buildings and Improvements	5 to 40 years
Machinery and Equipment	3 to 20 years
Furniture and Fixtures	3 to 20 years

Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are charged to operations as incurred.

The cost of assets retired or otherwise disposed of and the related accumulated depreciation are eliminated from the accounts in the year of disposal. Gains or losses resulting from property disposal are credited or charged to operations currently.

Net Assets

Net assets consist of net assets invested in capital assets (property and equipment), net of related debt; restricted net assets; and unrestricted net assets. Net assets invested in capital assets, net of related debt consist of capital assets net of accumulated depreciation and outstanding balance on any related debt that is attributable to the acquisition of the capital assets. Restricted net assets are those assets that are externally restricted by creditors, grantors, contributors, or laws and regulations, or those restricted by constitutional provisions and enabling legislation. Unrestricted net assets consist of all other assets. When both restricted and unrestricted resources are available for use, it is the Hospital's policy to use unrestricted resources first, then restricted resources as they are needed.

Revenue and Expenses

The Hospital's statement of revenues, expenses and changes in net assets distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Nonexchange revenues are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year classification.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

NOTE 3 - DEPOSITS AND INVESTMENTS

Investing is performed in accordance with investment policies complying with state statutes. Funds may be invested in direct obligations of the United States Government and its agencies pledged by its full faith and credit, certificates of deposit and savings accounts which are secured by FDIC or pledge of securities, and government backed mutual or trust funds.

Custodial Credit Risk – Custodial credit risk for deposits is the risk that in the event of a bank failure, the Hospital's deposits may not be returned to it. Louisiana state statutes require that all of the deposits of the Hospital be protected by insurance or collateral. The fair value of the collateral pledged must equal 100% of the deposits not covered by insurance. The Hospital's deposits were entirely insured or entirely collateralized by securities held by the pledging bank's trust department in the Hospital's name at April 30, 2007, 2006, and 2005

Interest Rate Risks – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer an investment takes to mature, the greater the sensitivity of its fair value to changes in market interest rates.

The carrying amounts of deposits and investments are included in the Hospital's balance sheets as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Carrying amount			
Deposits	\$ 135,316	\$ 422,611	\$ 290,882
Investments	<u>3,732,974</u>	<u>3,046,596</u>	<u>3,554,625</u>
	<u>\$ 3,868,290</u>	<u>\$ 3,469,207</u>	<u>\$ 3,845,507</u>
Included in the following balance sheet captions			
Cash and cash equivalents	\$ 135,316	\$ 422,611	\$ 290,882
Short-term investments	3,141,704	2,321,583	2,547,556
Noncurrent cash and investments			
Assets whose use is limited	<u>591,270</u>	<u>725,013</u>	<u>1,007,069</u>
	<u>\$ 3,868,290</u>	<u>\$ 3,469,207</u>	<u>\$ 3,845,507</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 4 - ACCOUNTS RECEIVABLE

A summary of accounts receivable is presented below:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Patients	\$ 4,299,816	\$ 4,218,750	\$ 3,485,883
Other	<u>54,373</u>	<u>23,178</u>	<u>346,574</u>
Total	4,354,189	4,241,928	3,832,457
Estimated allowances for uncollectibles	<u>(3,409,000)</u>	<u>(2,906,000)</u>	<u>(2,032,000)</u>
Net accounts receivable	\$ <u>945,189</u>	\$ <u>1,335,928</u>	\$ <u>1,800,457</u>

The following is a summary of the mix of receivables from patients and third-party payors at April 30:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medicare	6%	12%	10%
Medicaid	7%	18%	12%
Commercial and other third-party payors	15%	15%	19%
Patients	<u>72%</u>	<u>55%</u>	<u>59%</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT

The following is a summary of property, plant and equipment, and related accumulated depreciation at April 30:

	April 30 <u>2006</u>	<u>Additions</u>	<u>Deductions</u>	April 30, <u>2007</u>
Land	\$ 177,500	\$ -0-	\$ -0-	\$ 177,500
Buildings	4,318,514	-0-	-0-	4,318,514
Leasehold improvements	2,529,238	-0-	-0-	2,529,238
Furniture and equipment	6,948,385	558,345	-0-	7,506,730
Construction in progress	<u>-0-</u>	<u>32,275</u>	<u>-0-</u>	<u>32,275</u>
Total	13,973,637	590,620	-0-	14,564,257
Accumulated depreciation	<u>9,845,810</u>	<u>675,130</u>	<u>-0-</u>	<u>10,520,940</u>
Net	\$ <u>4,127,827</u>	\$ <u>(84,510)</u>	\$ <u>-0-</u>	\$ <u>4,043,317</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 5 - PROPERTY, PLANT AND EQUIPMENT (Continued)

	April 30, <u>2005</u>	<u>Additions</u>	<u>Deductions</u>	April 30, <u>2006</u>
Land	\$ 177,500	\$ -0-	\$ -0-	\$ 177,500
Buildings	4,270,386	48,128	-0-	4,318,514
Leasehold improvements	2,529,238	-0-	-0-	2,529,238
Furniture and equipment	6,728,729	219,656	-0-	6,948,385
Construction in progress	<u>44,185</u>	<u>-0-</u>	<u>44,185</u>	<u>-0-</u>
Total	13,750,038	267,784	44,185	13,973,637
Accumulated depreciation	<u>9,148,187</u>	<u>697,623</u>	<u>-0-</u>	<u>9,845,810</u>
Net	\$ <u>4,601,851</u>	\$ <u>(429,839)</u>	\$ <u>44,185</u>	\$ <u>4,127,827</u>

	April 30, <u>2004</u>	<u>Additions</u>	<u>Deductions</u>	April 30, <u>2005</u>
Land	\$ 177,500	\$ -0-	\$ -0-	\$ 177,500
Buildings	3,934,801	335,585	-0-	4,270,386
Leasehold improvements	2,494,415	34,823	-0-	2,529,238
Furniture and equipment	6,440,446	288,283	-0-	6,728,729
Construction in progress	<u>237,283</u>	<u>-0-</u>	<u>193,098</u>	<u>44,185</u>
Total	13,284,445	658,691	193,098	13,750,038
Accumulated depreciation	<u>8,485,362</u>	<u>662,825</u>	<u>-0-</u>	<u>9,148,187</u>
Net	\$ <u>4,799,083</u>	\$ <u>(4,134)</u>	\$ <u>193,098</u>	\$ <u>4,601,851</u>

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT

As discussed in Note 1, the hospital facility and original equipment were acquired with the proceeds of ad valorem tax bonds issued by the Franklin Parish Police Jury.

Effective September 29, 1992, the Police Jury renewed its lease to the District. The lease has a term of 30 years and may be terminated at any time by mutual consent of both entities. The lease does not call for the District to pay consideration to the Police Jury.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 6 - HOSPITAL FACILITY AND EQUIPMENT (Continued)

The following property, plant and equipment was acquired by the Police Jury and is reported in the District's financial statements

Cost or Fair Market Value on the Date of Donation	<u>2007</u>	<u>2006</u>	<u>2005</u>
Land	\$ 27,500	\$ 27,500	\$ 27,500
Buildings	1,842,500	1,842,500	1,842,500
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
Total	<u>2,058,716</u>	<u>2,058,716</u>	<u>2,058,716</u>
<u>Accumulated Depreciation</u>			
Buildings	1,752,174	1,718,302	1,684,430
Furniture and equipment	<u>188,716</u>	<u>188,716</u>	<u>188,716</u>
Total	<u>1,940,890</u>	<u>1,907,018</u>	<u>1,873,146</u>
Book value of property, plant and equipment	\$ <u>117,826</u>	\$ <u>151,698</u>	\$ <u>185,570</u>

These assets were obtained in part with funds from a Hill-Burton grant of \$763,844. The Hill-Burton program has the ability to recapture a portion of the depreciated replacement cost of these assets should the facility be closed or not used by a qualified recipient.

NOTE 7 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited include certificates of deposit set aside by the Board of Commissioners for the following purposes:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Capital improvements	\$ 56,516	\$ 54,071	\$ 286,187
LHA trust	219,780	238,074	262,466
Contingencies	-0-	131,265	128,051
Self-insured unemployment fund	<u>314,974</u>	<u>301,603</u>	<u>330,365</u>
Total	\$ <u>591,270</u>	\$ <u>725,013</u>	\$ <u>1,007,069</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 8 - COMPENSATED ABSENCES

Employees of the District are entitled to paid days off and sick days depending on length of service. The District accrued \$232,070, \$205,669 and \$206,328 of vacation pay at April 30, 2007, 2006 and 2005. It is impracticable to estimate the amount of compensation for future unvested sick pay and, accordingly, no liability has been recorded in the accompanying financial statements. The District's policy is to recognize the cost of unvested sick pay when actually paid to employees.

NOTE 9 - LONG-TERM DEBT

A summary of long-term debt, including capital leases, at April 30, follows:

	April 30 <u>2006</u>	<u>Additions</u>	<u>Payments</u>	April 30, <u>2007</u>	Due Within <u>One Year</u>
Lease Payable - GE	\$ 315,312	\$ -0-	\$ 118,625	\$ 196,687	\$ 122,929
Lease Payable - GE	18,090	-0-	18,090	-0-	-0-
Note Payable - Hibernia Bank	72,745	-0-	32,251	40,494	32,739
Lease Payable - Regions Bank	<u>-0-</u>	<u>90,230</u>	<u>-0-</u>	<u>90,230</u>	<u>21,604</u>
Total	\$ <u>406,147</u>	\$ <u>90,230</u>	\$ <u>168,966</u>	\$ <u>327,411</u>	\$ <u>177,272</u>

	April 30, <u>2005</u>	<u>Additions</u>	<u>Payments</u>	April 30, <u>2006</u>	Due Within <u>One Year</u>
Lease Payable - GE	\$ 429,782	\$ -0-	\$ 114,470	\$ 315,312	\$ 118,624
Lease Payable - GE	86,770	-0-	68,680	18,090	18,090
Lease Payable - Hibernia	<u>104,517</u>	<u>-0-</u>	<u>31,772</u>	<u>72,745</u>	<u>32,251</u>
Total	\$ <u>621,069</u>	\$ <u>-0-</u>	\$ <u>214,922</u>	\$ <u>406,147</u>	\$ <u>168,965</u>

	April 30, <u>2004</u>	<u>Additions</u>	<u>Payments</u>	April 30, <u>2005</u>	Due Within <u>One Year</u>
Lease Payable - GE	\$ 540,243	\$ -0-	\$ 110,461	\$ 429,782	\$ 118,624
Lease Payable - GE	149,923	-0-	63,153	86,770	18,090
Lease Payable - Hibernia	<u>116,273</u>	<u>24,759</u>	<u>36,515</u>	<u>104,517</u>	<u>32,251</u>
Total	\$ <u>806,439</u>	\$ <u>24,759</u>	\$ <u>210,129</u>	\$ <u>621,069</u>	\$ <u>168,965</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 9 - LONG-TERM DEBT (Continued)

The following are the terms and due dates of the Hospital's long-term debt at April 30:

- Lease Payable with GE Healthcare Financial Services, at an interest rate of 8.4%, due in monthly installments with full repayment at July 31, 2006, secured by equipment with a cost of \$294,577 and book value of \$-0- at April 30, 2007.
- Lease Payable with GE Healthcare Financial Services, at an interest rate of 3.57%, due in monthly installments with full repayment at November 30, 2008, secured by equipment with a cost of \$574,488 and book value of \$191,496 at April 30, 2007.
- Lease Payable with Hibernia Leasing, at an interest rate of 1.5%, due in monthly installments with full repayment at June 19, 2008, secured by equipment with a cost of \$136,319 and book value of \$69,855 at April 30, 2007.
- Lease payable with Regions Bank, at an interest rate of 5.72%, due in monthly installments with full repayment at December 15, 2011, secured by equipment with a cost of \$140,230 and book value of \$126,207 at April 30, 2007.

<u>Year Ending April 30</u>	<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2008	\$ 177,272	\$ 11,524
2009	98,830	4,373
2010	18,333	2,459
2011	19,409	1,383
2012	13,567	295
Totals	\$ <u>327,411</u>	\$ <u>20,034</u>

The assets and liabilities under capital leases are recorded at the fair value of the asset. The assets are depreciated over their estimated useful lives. Depreciation of assets under capital leases is included in depreciation expense.

NOTE 10 - NET PATIENT SERVICE REVENUES

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows.

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Certain outpatient services related to Medicare beneficiaries are paid based on a set fee per diagnosis with a hold harmless provision for partial cost reimbursement for some of these services until January 1, 2009, if not extended by Congress. The additional payments received under the hold harmless provision was \$560,827, \$145,536, and \$203,640 for the years ended April 30, 2007, 2006, and 2005, respectively. Swing bed services are reimbursed based on

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

a prospectively determined rate per patient day. Geriatric inpatient psychiatry is reimbursed based upon a cost reimbursement methodology subject to a limit amount per discharge. Effective October 1, 2005, this method of reimbursement begins a four (4) year transition to a prospective method based upon length of stay, diagnosis, and other factors. In year one (1) the District is paid seventy-five percent (75%) based on the old cost based system and twenty-five percent (25%) based on the new prospective system. In year two (2) the blend is fifty/fifty. In year three (3), twenty-five percent (25%) cost and seventy-five percent (75%) prospective. In year four (4) payments are scheduled to be fully prospective.

Medicaid - Inpatient services are reimbursed based on a prospectively determined per diem rate. Some outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology, while others are paid prospectively based on a fee schedule. The District is reimbursed at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid fiscal intermediary. The District's Medicaid cost reports have been examined by the Medicaid fiscal intermediary through April 30, 2003.

Commercial - The Hospital also has entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. Payment methods under these agreements include prospectively determined rates per discharge, discounts from established charges and prospectively determined per diem rates.

The following is a summary of the Hospital's net patient revenues for the years ended April 30:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Gross patient service revenues	\$ 23,953,070	\$ 23,965,292	\$ 22,735,992
Contractual adjustments	(8,250,591)	(9,348,722)	(8,818,880)
Provision for bad debts	(1,674,351)	(2,026,140)	(1,330,590)
Discounts	(86,505)	(19,870)	(3,034)
Uncompensated care reimbursement	<u>2,486,146</u>	<u>1,359,009</u>	<u>1,400,115</u>
Net patient service revenues	\$ <u>16,427,769</u>	\$ <u>13,929,569</u>	\$ <u>13,983,603</u>

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 10 - NET PATIENT SERVICE REVENUES (Continued)

The Hospital receives a substantial portion of its revenues from the Medicare and Medicaid programs at discounted rates. The following is a summary of Medicare and Medicaid patient revenues for the years ended April 30:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Medicare and Medicaid patient charges	\$ 17,724,066	\$ 17,956,135	\$ 18,141,029
Contractual adjustments	<u>(4,986,566)</u>	<u>(6,955,237)</u>	<u>(6,874,810)</u>
Program patient service revenue	\$ <u>12,737,500</u>	\$ <u>11,000,898</u>	\$ <u>11,266,219</u>
Percent of total gross patient charges	<u>74%</u>	<u>75%</u>	<u>80%</u>
Percent of total net patient revenues	<u>78%</u>	<u>79%</u>	<u>81%</u>

The Hospital received interim amounts of \$2,486,146, \$1,359,009, and \$1,400,115 for Medicaid and self-pay uncompensated care services (UCC) for the years ended April 30, 2007, 2006, and 2005, respectively, which represents 15%, 10%, and 10% of the net patient service revenues, respectively. The interim amounts received are based upon uncompensated cost incurred in previous years. Current regulations limit UCC to actual cost incurred by the Hospital in each state fiscal year. Any overpayments will be recouped by Medicaid after audit by Medicaid. The Hospital has made provisions for recoupment of \$130,000 for fiscal 2007 year. With the exception of 2007, management contends interim amounts paid reasonably estimate final settlement. To the extent management's estimates differ from actual results; the differences will be used to adjust income for the period when differences arise. Future UCC payments are dependent upon State appropriations, which require annual approval by the State legislature.

NOTE 11 - PROFESSIONAL LIABILITY RISK

The Hospital participates in the Louisiana Patient's Compensation Fund ("PCF") established by the State of Louisiana to provide medical professional liability coverage to healthcare providers. The fund provides for \$400,000 in coverage per occurrence above the first \$100,000 per occurrence for which the Hospital is at risk. The fund places no limitation on the number of occurrences covered. In connection with the establishment of the PCF, the State of Louisiana enacted legislation limiting the amount of healthcare provider settlement for professional liability to \$100,000 per occurrence and limited the PCF's exposure to \$400,000 per occurrence.

NOTE 12 - CONTINGENCIES

The District evaluates contingencies based upon the best available evidence. The District believes that no allowances for loss contingencies are considered necessary. To the extent that resolution of contingencies results in amounts which vary from the District's estimates, future earnings will be charged or credited.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 12 - CONTINGENCIES (Continued)

The principal contingencies are described below:

Governmental Third-Party Reimbursement Programs (Note 10) - The Hospital is contingently liable for retroactive adjustments made by the Medicare and Medicaid programs as the result of their examinations as well as retroactive changes in interpretations applying statutes, regulations and general instructions of those programs. The amount of such adjustments cannot be determined.

Further, in order to continue receiving reimbursement from the Medicare program, the Hospital entered into an agreement with a government agent allowing the agent access to the Hospital's Medicare patient medical records for purposes of making medical necessity and appropriate level of care determinations. The agent has the ability to deny reimbursement for Medicare patient claims which have already been paid to the Hospital.

The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participating requirements, reimbursement for patient services, and Medicare and Medicaid fraud and abuse. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of fraud and abuse statutes and regulations by healthcare providers. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed. Management believes that the Hospital is in compliance with fraud and abuse statutes as well as other applicable government laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

Professional Liability Risk (Note 11) - The Hospital is contingently liable for losses from professional liability not underwritten by the Louisiana Patient's Compensation Fund or the Hospital's insurance carrier.

The Hospital also participates in the Franklin Medical Center Employee Benefit Plan and Trust. If the fund's assets are not adequate to cover the claims made against it, the Hospital will be assessed its pro rata share of the resulting deficit. It is not possible to estimate the amount of additional assessments, if any. Accordingly, the Hospital is contingently liable for assessments by the Louisiana Hospital Association Trust Fund. The District has acquired stop-loss insurance to cover individual claims exceeding \$30,000 or aggregate claims exceeding \$1,000,000 per year.

NOTE 13 - PENSION PLAN

The District has a defined contribution pension plan. The plan is administered by The Pension Company who holds all plan assets. All of the employees over the age of 21 are eligible to participate in the plan. Employees can elect to contribute up to 22% of their annual salaries and the District matches the first 3% of the employees' contributions. Actual contributions made by the District for the years ended April 30, 2007, 2006 and 2005 were \$88,005, \$78,184, and \$83,683.

FRANKLIN MEDICAL CENTER
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED APRIL 30, 2007, 2006 AND 2005

NOTE 14 - COMMISSIONERS

The following commissioners served Franklin Medical Center without compensation during the year ended April 30, 2007:

Madge Wilson
Woodrow Bell
Rebecca Singleton
John Earl Carroll
Nick Poulas

SUPPLEMENTARY INFORMATION

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Routine Services:			
Adults and pediatric	\$ 2,002,950	\$ 2,206,475	\$ 2,218,530
Intensive care unit	244,375	313,750	327,500
Swing bed	31,600	59,800	63,200
Psychiatric	<u>871,820</u>	<u>1,143,230</u>	<u>1,275,210</u>
 Total	 <u>3,150,745</u>	 <u>3,723,255</u>	 <u>3,884,440</u>
 Other Professional Services:			
 Operating room			
Inpatient	255,932	307,086	304,552
Outpatient	<u>296,118</u>	<u>322,610</u>	<u>321,840</u>
 Total	 <u>552,050</u>	 <u>629,696</u>	 <u>626,392</u>
 Recovery room			
Inpatient	65,100	77,175	72,900
Outpatient	<u>106,575</u>	<u>115,350</u>	<u>115,875</u>
 Total	 <u>171,675</u>	 <u>192,525</u>	 <u>188,775</u>
 Anesthesia			
Inpatient	189,706	223,270	224,225
Outpatient	<u>217,125</u>	<u>253,688</u>	<u>255,464</u>
 Total	 <u>406,831</u>	 <u>476,958</u>	 <u>479,689</u>
 Radiology			
Inpatient	1,070,826	954,167	808,124
Outpatient	<u>2,368,291</u>	<u>2,234,561</u>	<u>2,028,829</u>
 Total	 <u>3,439,117</u>	 <u>3,188,728</u>	 <u>2,836,953</u>
 Laboratory			
Inpatient	1,039,581	779,296	808,035
Outpatient	<u>1,305,455</u>	<u>974,747</u>	<u>721,837</u>
 Total	 <u>\$ 2,345,036</u>	 <u>\$ 1,754,043</u>	 <u>\$ 1,529,872</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Blood			
Inpatient	\$ 71,913	\$ 71,473	\$ 74,020
Outpatient	<u>22,343</u>	<u>17,840</u>	<u>14,385</u>
Total	<u>94,256</u>	<u>89,313</u>	<u>88,405</u>
Respiratory care			
Inpatient	2,080,475	2,224,371	2,692,999
Outpatient	<u>122,601</u>	<u>101,703</u>	<u>92,426</u>
Total	<u>2,203,076</u>	<u>2,326,074</u>	<u>2,785,425</u>
Physical therapy			
Inpatient	19,836	27,758	24,868
Outpatient	<u>229</u>	<u>-0-</u>	<u>-0-</u>
Total	<u>20,065</u>	<u>27,758</u>	<u>24,868</u>
EKG			
Inpatient	88,792	179,741	252,772
Outpatient	<u>79,725</u>	<u>151,202</u>	<u>215,252</u>
Total	<u>168,517</u>	<u>330,943</u>	<u>468,024</u>
Central supply			
Inpatient	597,578	438,332	294,306
Outpatient	<u>301,365</u>	<u>209,751</u>	<u>192,075</u>
Total	<u>898,943</u>	<u>648,083</u>	<u>486,381</u>
Pharmacy			
Inpatient	2,606,961	3,328,046	3,895,855
Outpatient	<u>546,846</u>	<u>582,548</u>	<u>717,555</u>
Total	\$ <u>3,153,807</u>	\$ <u>3,910,594</u>	\$ <u>4,613,410</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF NET PATIENT SERVICE REVENUES (Continued)
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Intensive outpatient program	\$ <u>1,177,065</u>	\$ <u>384,480</u>	\$ <u>-0-</u>
Emergency room			
Inpatient	521,372	678,368	702,030
Outpatient	<u>2,413,202</u>	<u>2,940,289</u>	<u>2,786,608</u>
Total	<u>2,934,574</u>	<u>3,618,657</u>	<u>3,488,638</u>
Observation room			
Inpatient	7,881	3,975	10,200
Outpatient	<u>62,325</u>	<u>37,675</u>	<u>32,650</u>
Total	<u>70,206</u>	<u>41,650</u>	<u>42,850</u>
Rural health clinic - outpatient	<u>3,130,550</u>	<u>2,594,546</u>	<u>1,153,970</u>
Ambulance			
Inpatient	5,618	1,700	4,075
Outpatient	<u>30,939</u>	<u>26,289</u>	<u>33,825</u>
Total	<u>36,557</u>	<u>27,989</u>	<u>37,900</u>
Total Other Professional Services	<u>20,802,325</u>	<u>20,242,037</u>	<u>18,851,552</u>
Gross Patient Service Charges	<u>23,953,070</u>	<u>23,965,292</u>	<u>22,735,992</u>
Allowances and Uncollectibles:			
Contractual adjustments	8,250,591	9,348,722	8,818,880
Provision for bad debts	1,674,351	2,026,140	1,330,590
Charity care and policy discounts	86,505	19,870	3,034
Uncompensated care reimbursement	<u>(2,486,146)</u>	<u>(1,359,009)</u>	<u>(1,400,115)</u>
Total Allowances and Uncollectibles	<u>7,525,301</u>	<u>10,035,723</u>	<u>8,752,389</u>
Net Patient Service Revenue	\$ <u>16,427,769</u>	\$ <u>13,929,569</u>	\$ <u>13,983,603</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OTHER OPERATING REVENUES
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cafeteria sales	\$ 61,552	\$ 49,672	\$ 66,524
Vending machine commission	3,935	3,911	3,623
Physician office rentals	117,687	106,705	146,430
Medical records abstract fees	12,488	9,130	13,818
LHA investment income	-0-	10,491	-0-
Miscellaneous revenue	<u>22,283</u>	<u>11,044</u>	<u>14,297</u>
Total other operating revenue	\$ <u>217,945</u>	\$ <u>190,953</u>	\$ <u>244,692</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – SALARIES AND BENEFITS
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Personnel	\$ 51,856	\$ 55,287	\$ 53,128
Administration	1,204,841	936,056	1,016,599
Plant operations and maintenance	219,729	213,738	230,300
Housekeeping	169,276	189,716	173,921
Dietary and cafeteria	181,829	170,698	206,236
Nursing administration	100,295	102,066	82,216
Pharmacy	-0-	(197)	-0-
Medical records	230,958	214,475	170,290
Nursing services, acute care	1,222,316	1,213,755	1,388,402
Nursing services, intensive care unit	276,955	299,709	377,460
Nursing services, psychiatric unit	432,865	457,862	383,676
Operating room	200,978	220,485	210,566
Radiology	329,109	294,092	287,496
Respiratory care	327,067	231,695	240,802
Intensive outpatient program	179,725	96,518	-0-
Emergency room	517,378	464,242	361,375
Rural health clinic	1,274,315	1,096,823	636,562
Transportation	37,097	41,421	14,548
Private physician office	-0-	-0-	8,418
	<u>6,956,589</u>	<u>6,298,441</u>	<u>5,841,995</u>
Total salaries			
Payroll taxes	496,627	446,517	419,486
Health insurance	1,255,847	1,274,452	1,235,479
Pension plan	88,005	78,184	83,683
Other	106,344	61,246	61,496
	<u>1,946,823</u>	<u>1,860,399</u>	<u>1,800,144</u>
Total benefits			
Total salaries and benefits	\$ <u>8,903,412</u>	\$ <u>8,158,840</u>	\$ <u>7,642,139</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – PROFESSIONAL FEES
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Nursing service	\$ 10,868	\$ -0-	\$ -0-
Psychiatric unit	87,033	62,139	36,566
Operating room	3,346	(931)	17,329
Anesthesiology	320,041	270,377	235,614
Radiology	128,873	130,944	72,331
Laboratory	771,468	777,767	678,700
Respiratory therapy	2,693	5,691	10,127
Physical therapy	8,802	12,737	12,662
EKG	-0-	16,882	119,921
IOP	55,085	87	-0-
Emergency room	775,644	956,247	910,497
Rural health clinic	<u>383,479</u>	<u>358,464</u>	<u>74,190</u>
 Total professional fees	 \$ <u>2,547,332</u>	 \$ <u>2,590,404</u>	 \$ <u>2,167,937</u>

FRANKLIN MEDICAL CENTER
SCHEDULES OF OPERATING EXPENSES – OTHER EXPENSES
YEARS ENDED APRIL 30,

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Management fees	\$ 372,672	\$ 312,397	\$ 505,819
Miscellaneous service fees	1,022,806	570,784	360,252
Legal and accounting	106,163	119,184	62,601
Supplies	309,906	284,120	394,019
Minor equipment	32,710	84,466	27,013
Repairs and maintenance	193,942	154,873	158,323
Utilities	311,016	338,918	270,341
Telephone	68,856	66,962	52,078
Travel	60,607	21,582	32,229
Rentals	367,132	290,870	237,886
Education	34,018	1,621	7,336
Dues and subscriptions	121,366	75,206	95,986
Recruitment and advertising	2,423	3,225	205
Miscellaneous	<u>130,365</u>	<u>90,238</u>	<u>148,183</u>
 Total other expenses	 \$ <u>3,133,982</u>	 \$ <u>2,414,446</u>	 \$ <u>2,352,271</u>

**LESTER, MILLER & WELLS***A CORPORATION OF CERTIFIED PUBLIC ACCOUNTANTS*

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

To the Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana

We have audited the financial statements of Hospital Service District No. 1, Parish of Franklin ("Franklin Medical Center"), a component unit of the Franklin Parish Police Jury, as of and for the years ended April 30, 2007, 2006 and 2005, and have issued our report thereon dated October 18, 2007. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Franklin Medical Center's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Franklin Medical Center's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Hospital's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Hospital's financial statements that is more than inconsequential will not be prevented or detected by the Hospital's internal control. We consider the deficiencies described in the accompanying schedule of findings to be significant deficiencies in internal control over financial reporting: 2007-01, 2007-02, and 2007-03.

Board of Commissioners
Hospital Service District No. 1
Parish of Franklin
Winnsboro, Louisiana
Page Two

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Hospital's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Franklin Medical Center's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and responses as items 2007-04.

The Hospital's response to the findings identified in our audit is described in the accompanying schedule of findings. We did not audit Franklin Medical Center's response and, accordingly, we express no opinion on it.

This report is intended for the information and use of the Board of Commissioners, Management and the Office of the Legislative Auditor of the State of Louisiana and is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit the distribution of this report, which is a matter of public record.

Lester Miller & Wells

Certified Public Accountant
October 18, 2007



FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2007

Current Year Findings

Internal Controls

2007-01

Finding: In the past, the auditors were able to draft the financial statements with management accepting responsibility. Effective for financial statements ending on or after December 15, 2006, Statements on Auditing Standards 112 more definitely requires management ensure the propriety and completeness of the financial statements and related footnotes. The staff responsible for preparation of the financial statements and related footnote disclosures in accordance with generally accepted accounting principles (GAAP) lacks the knowledge and/or resources necessary to internally complete the reporting requirements.

Recommendation: Management should either: (a) obtain the knowledge and/or resources necessary to internally prepare or review the auditor's preparation of the Hospital's basic financial statements and related footnote disclosures in accordance with GAAP, or (b) determine if the cost of "a" overrides the benefit of correcting this control deficiency.

Response: Management has hired a CFO with the knowledge and/or resources necessary to internally prepare or review the auditor's preparation of the Hospital's basic financial statements and related footnote disclosures in accordance with GAAP.

2007-02

Finding: Due to a limited number of available employees, there is not a complete segregation of duties in all accounting, recording, and custody functions.

Recommendation: We recommend that duties be segregated to the extent possible to prevent both intentional and unintentional errors. Segregation includes 1) separating transaction authorization from custody of related asset; 2) separating transaction recording from general ledger posting and maintenance; 3) separating operations responsibility from record-keeping. Where these segregations are not possible, we recommend close supervision and review.

Response: Management will continue to segregate duties as much as possible and will closely supervise and review duties to prevent errors.

2007-03

Finding: The Hospital entered into a capital lease transaction, however the asset and related debt was not recorded.

Recommendation: We recommend recording the asset and related debt on loan and capital lease transactions after the execution of the loan or lease document.

Response: Management will record future debt after entering into such transactions.



FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2007

Current Year Findings (Continued)

Compliance

2007-04

Finding: The former chief financial officer charged approximately \$9,800 of personal use items to the Hospital's credit card. Previous credit card statements were approved by the chief financial officer

Recommendation: We recommend the Hospital turn this matter over to the local District Attorney's office. Additionally administrative expenses should be approved either by the Board chairman or the financial committee

Response: Management has turned the matter over to the local District Attorney's office. Future expense reports and credit card statement of management will be reviewed and approved by the Finance Committee.



FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2007

Prior Years' Findings

Internal Controls

2005-01

Finding: The District did not report unclaimed vendor checks to the State of Louisiana as unclaimed property

Recommendation: We recommend reporting unclaimed property as required to the State of Louisiana

Response: Any unclaimed property will be reported as required by the State of Louisiana. Additionally, the District will monitor outstanding checks on a monthly basis

Resolution: This matter has been resolved.

2006-01

Finding: Monthly interim financial statements were not provided to the Board on a regular basis. The Board needs accurate and timely financial statements in order to make informed financial decisions.

Recommendation: We recommend that management prepare monthly interim financial statements in a timely manner and present at the Board meetings.

Response: Management is in the process of hiring a new chief financial officer to be responsible for the preparation of monthly financial statements. Currently management has contracted with an outside company to assist in the preparation of the financial statements.

Resolution: This matter has been resolved

2006-02

Finding: Various accounts, such as allowances for accounts receivable, depreciation expense and prepaids, were not adjusted on a monthly basis. Without these entries, the financial statements are incomplete and inaccurate

Recommendation: During the monthly close, balance sheet accounts should be reconciled and adjusted before issuing financial statements to the Board.

Response: We will reconcile and record monthly journal entries in order to have an accurate set of financial statements for the Board to help aid in their decision making.

Resolution: This matter has been resolved.



FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2007

Prior Years' Findings (Continued)

Internal Controls (Continued)

2006-03

Finding: Allowances for accounts receivable were understated by approximately \$900,000. Management did not record an entry for the final month of the year as well as used a different methodology of estimating allowances than incorporated in the previous years

Recommendation: Allowances for accounts receivable should be estimated in a consistent manner. Additionally, management should compare its estimate to historical data to insure an adequate allowance is recorded.

Response: We will calculate an estimate for allowances on accounts receivable using current historical data applied to an aging of accounts receivable. The estimate will be recorded monthly

Resolution: This matter has been resolved

2006-04

Finding: It was brought to our attention during the audit that the Hospital charged out some items at cost. Additionally, the Hospital has not completed a charge master in the past few years.

Recommendation: We recommend the Hospital hire an outside consultant to complete a charge master review. Charge master reviews should be done more frequently due to changes in Medicare and Medicaid regulations.

Response: We will have a charge master review after hiring a new chief financial officer.

Resolution: This matter has been resolved

2006-05

Finding: A cash receipt of approximately \$68,000 was received before year end, but the posting of the transaction did not occur until after year end. As a result cash was understated by \$68,000 and accounts receivable was overstated by approximately \$129,000

Recommendation: We recommend posting of remittance advices to the month in which they were received.

Response: We will record deposits in the correct time period.

Resolution: This matter has been resolved



FRANKLIN MEDICAL CENTER
AUDITORS' SCHEDULE OF FINDINGS
YEAR ENDED APRIL 30, 2007

Prior Years' Findings (Continued)

Compliance

2006-06

Finding: Two certificates of deposit, which were restricted as to use by the Board, were used without the approval of the Board.

Recommendation: We recommend that a schedule of restricted investments be presented to the Board on a monthly basis. Additionally, restricted investments should not be used without Board approval.

Response: Management will seek Board approval before closing out any accounts that were previously restricted by the Board.

Resolution: This matter has not been resolved.

2006-07

Finding: While the Board approved for management to enter into negotiations on a physician contract, management did not obtain final approval from the Board. Additionally, management did not obtain a fair value opinion on physician contracts.

Recommendation: We recommend that management obtain Board approval on future contracts. We also suggest a fair value opinion be obtained on all physician agreements.

Response: Management will obtain the fair value opinions as recommended.

Resolution: This matter has not been resolved.

2006-08

Finding: Upon resigning, an employee was paid sick leave as approved by the Board chairman. The contract was vague in determining whether or not the sick leave was vested.

Recommendation: We suggest that contracts with employees be revised to state that sick leave is not vested.

Response: We will implement the recommendation.

Resolution: This matter has been resolved.

